



**DEPARTMENT OF INSURANCE, FINANCIAL
INSTITUTIONS AND PROFESSIONAL REGISTRATION**

P.O. Box 690, Jefferson City, Mo. 65102-0690

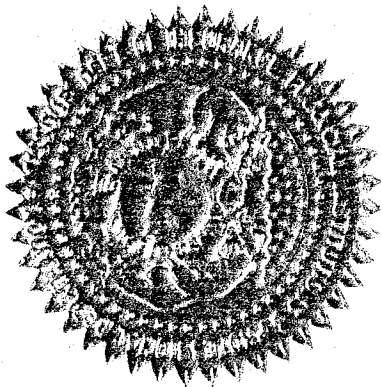
RE: Examination Report of Sunset Life Insurance Company of America as of
December 31, 2005

ORDER

After full consideration and review of the report of the financial examination of Sunset Life Insurance Company of America for the period ended December 31, 2005, together with any written submissions or rebuttals and any relevant portions of the examiner's workpapers, I, Douglas M. Ommen, Director, Missouri Department of Insurance, Financial Institutions and Professional Registration pursuant to section 374.205.3(3)(a), RSMo., adopt such report. After my consideration and review of such report, workpapers, and written submissions or rebuttals, the findings and conclusions of the examination report are incorporated by reference and deemed to be my findings and conclusions to accompany this order pursuant to section 374.205.3(4), RSMo.

Based on such findings and conclusions, I hereby ORDER Sunset Life Insurance Company of America, to take the following action or actions, which I consider necessary to cure any violation of law, regulation or prior order of the Director revealed by such report: (1) implement, and verify compliance with, each item mentioned in the General Comments and/or Recommendations section of such report; (2) account for its financial condition and affairs in a manner consistent with the Director's findings and conclusions.

So ordered, signed and official seal affixed this July 18, 2007.



DOUGLAS M. OMMEN, Director
Department of Insurance, Financial Institutions
and Professional Registration

**REPORT OF THE
ASSOCIATION FINANCIAL EXAMINATION OF
SUNSET LIFE INSURANCE COMPANY
OF AMERICA
AS OF
DECEMBER 31, 2005**



**STATE OF MISSOURI
DEPARTMENT OF INSURANCE, FINANCIAL INSTITUTIONS
AND PROFESSIONAL REGISTRATION
JEFFERSON CITY, MISSOURI**

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Kansas City, Missouri
April 6, 2007

Honorable Alfred W. Gross, Commissioner
Virginia Bureau of Insurance
Chairman of Financial Condition (EX4) Subcommittee
Southeastern Zone Secretary

Honorable Merle Scheiber, Commissioner
South Dakota Division of Insurance
Midwestern Zone Secretary

Honorable Douglas M. Ommen, Director
Missouri Department of Insurance, Financial
Institutions and Professional Registration
301 West High Street, Room 530
Jefferson City, Missouri 65101

Gentlemen:

In accordance with your financial examination warrant, a full scope association financial examination has been made of the records, affairs and financial condition of

Sunset Life Insurance Company of America

hereinafter referred to as such, as Sunset Life, or as the Company. Its administrative office is located at 3520 Broadway, Kansas City, Missouri 64111, telephone number 816-753-7000. This examination began on August 29, 2006, and concluded on the above date.

SCOPE OF EXAMINATION

Period Covered

The prior full scope association financial examination of Sunset Life Insurance Company of America was made as of December 31, 2002, and was conducted by examiners from the State of Missouri representing the Midwestern Zone of the National Association of Insurance Commissioners (NAIC) with no other zones participating.

The current full scope association financial examination covered the period from January 1, 2003, through December 31, 2005, and was conducted by examiners from the State of Missouri, representing the Midwestern Zone of the NAIC, with no other zones participating.

This examination was conducted concurrently with the examinations of the parent company, Kansas City Life Insurance Company (Kansas City Life) and an affiliate, Old American Insurance Company (Old American).

This examination also included the material transactions and/or events occurring subsequent to the examination date, which are noted in this report.

Procedures

This examination was conducted using the guidelines set forth in the Financial Condition Examiners Handbook of the NAIC, except where practices, procedures and applicable regulations of the Missouri Department of Insurance, Financial Institutions and Professional Registration (DIFP) and statutes of the State of Missouri prevailed.

The examiners relied upon information supplied by the Company's independent auditor, KPMG, LLP, of Kansas City, Missouri, for its audit covering the period from January 1, 2005, through December 31, 2005. Information relied upon included attorney letters, tests of controls, and narrative descriptions of processes and controls.

Comments - Previous Examination

Listed below are comments, recommendations and notes of the previous examination report dated as of December 31, 2002, and the subsequent response or action taken by the Company.

Corporate Records

Comment: The Company was directed to either amend its Bylaws to state that Kansas City Life's Executive Committee will act on its behalf or comply with the provisions of its own Bylaws with respect to the composition of the Executive Committee and its functions.

Company's Response: The Company agreed to review its Bylaws and make changes as appropriate.

Current Findings: The Company indicated that the Executive Committee and Investment Committee of Kansas City Life will provide the oversight functions of these two Committees for Sunset Life. Additional communication regarding this issue was provided to the Company as part of the examination.

Comment: The Company was also advised to amend its Bylaws to identify the State of Missouri as its controlling legal authority.

Company's Response: The Company agreed to review its Bylaws and make changes as appropriate.

Current Findings: No additional problems were noted in this regard.

Other Deposits

Comment: The Company was directed to ensure that its assets pledged as collateral to the Federal Home Loan Bank, including the pledged value of the common stock of Federal Home Loan Bank owned by the Company, are properly disclosed on Schedule E – Part 3 (Special Deposits) of the Annual Statement in the future.

Company's Response: The Company agreed to comply with the recommendation.

Current Findings: This problem continued during the years under the current examination. See the Statutory Deposits section of this report under “Other Deposits” for more explanation.

Accounts and Records

Comment: The Company was directed to reduce and possibly eliminate the unusual complexity in its accounting system by abandoning the non-ledger approach and replacing the current system with one that assigns general ledger numbers to accounts that can easily be traced to the Annual Statement lines.

Company's Response: The Company indicated a willingness to convert to a new automated system that would resolve the problems identified.

Current Findings: Beginning in 2005, the Company implemented Hyperion Financial Management system software, which has the capability to reconcile general ledger accounts balances and adjustments to the amounts reported on the Annual Statement line items. Although some implementation and transition issues were noted, overall, it appears the new system should resolve the issues identified in the prior comment.

Custodial Agreements

Comment: It was noted that the Company's custodial agreement with United Missouri Bank was deficient, as it did **not** contain an acknowledgment by the custodian to assume liability for

consequential damage that may arise out of loss or theft of the securities under custody. It was also noted that the Company could not provide a custodial agreement regarding securities on custody with Fidelity Investments. The Company was directed to obtain custodial agreements with each of the custodians and ensure that the agreement wordings reflect in its entirety the requirements of the NAIC with respect to custodial agreements.

Company's Response: The Company agreed to comply with the recommendation.

Current Findings: The Company provided an updated custodial agreement for the various custodial accounts identified in the examination report. The one exception deals with the recommendation for a custodial agreement with Fidelity Investments Company. The issue has been addressed with the Company under separate cover.

Cash and Short-term Investments

Comment: It was noted that the Company improperly reported payables to Kansas City Life originating from related party transactions as part of the cash account. The Company was directed to report as its cash only those amounts that actually reside with the bank and can be verified through direct confirmation by the examination process.

Company's Response: The Company agreed to comply with the recommendation.

Current Findings: The Company addressed this specific issue with no additional exception noted.

Payable/Receivable to/from Parent, Subsidiaries and Affiliates

Comment: It was noted that Kansas City Life has an account with State Street Bank for payment of claims for itself and its insurance subsidiaries, including Sunset Life for the personal growth account business. At year-end 2002, Sunset Life owed Kansas City Life for unreimbursed claims paid on its behalf by Kansas City Life. However, Sunset Life improperly reported the unreimbursed amount as part of cash, which understated the amount payable to its parent. The Company was directed to properly and accurately report the underlying transaction in the future.

It was also noted that the Company improperly reported net payables from related party transactions on the intercompany receivable line of the Annual Statement. The Company was advised to ensure that the final account balance resulting from related party transactions are properly classified (receivable or payable) on the Annual Statement.

It was further noted that the underlying transaction between Kansas City Life and Sunset Life as noted above constituted an intercompany transaction in accordance with the Missouri holding company law. The Company was advised to submit an agreement to the DIFP for approval in accordance with Section 382.195 RSMo (Prohibited Transactions, Exceptions).

Company's Response: The Company agreed to implement the recommendations.

Current Findings: The Company has corrected the reporting problems indicated, including drawing up a management agreement to document the related party aspect of the transaction.

Remittances and Items Not Allocated

Comments: It was noted that the Company's accounting and reporting for the above line of the Annual Statement was inconsistent with prescribed standards and procedures. The Company was advised to ensure that, per SSAP #64 (Offsetting and Netting of Assets and Liabilities), unrelated debits and credits within the same general ledger account or between two or more general ledger accounts are not netted, but included as distinct assets/liabilities on the Annual Statement. Overall, the Company was advised to ensure compliance with applicable standards in completing the Annual Statement.

Company's Response: The Company indicated that a thorough review of the items contained in the account will be made to ensure compliance with applicable reporting standards and guidelines.

Current Findings: Additional reporting problems were noted in this account during the course of this examination. See Note #1 in the Notes to the Financial Statements section of this report for more details.

HISTORY

General

Sunset Life Insurance Company of America was incorporated as a stock life insurance company under the laws of the State of Washington on May 12, 1937. The Company was a wholly owned subsidiary of American Underwriters Corporation (AUC), until AUC was voluntarily dissolved in October 1960. Upon dissolution, Sunset Life's shares of stock were distributed to the owners of AUC.

In early 1974, Kansas City Life made a tender offer for all of the outstanding common stock of Sunset Life. As of December 31, 1975, 96.8% of the stock had been purchased. A capital restructuring was completed in December 1990, which resulted in Kansas City Life owning 100% of the outstanding common stock of the Company.

Capital Stock

The Company is authorized to issue 325 shares of \$20,000 par value common stock. As of December 31, 2005, 266 shares were issued and outstanding, resulting in a total par value of \$5,320,000 in the Company's common capital stock account.

Dividends

The following dividends were declared and paid to the sole shareholder, Kansas City Life during the period under examination:

<u>Period</u>	<u>Amount Paid</u>
2003	\$55,000,000
2004	7,500,000
2005	8,250,000
Total Paid	<u>\$70,750,000</u>

The 2003 dividend payment of \$55 million was an extra-ordinary dividend, which was approved by DIFP in accordance with applicable statutory provisions.

Management

The management of the Company is vested in a Board of Directors that is elected by the sole shareholder, Kansas City Life Insurance Company. The Company's Bylaws specify that the Board of Directors should consist of nine (9) and no more than twenty one (21) members. The Board of Directors elected and serving as of December 31, 2005, were as follows:

<u>Name</u>	<u>Address</u>	<u>Occupation and Business Affiliation</u>
R. Philip Bixby	Kansas City, Missouri	President, CEO & Chairman of the Board, Kansas City Life
Walter E. Bixby	Kansas City, Missouri	Vice Chairman, Kansas City Life
Charles R. Duffy, Jr.	Independence, Missouri	Senior Vice President, Kansas City Life
James F. Aldrich	Kansas City, Missouri	Associate General Counsel, Kansas City Life & Secretary, Sunset Life
Donald E. Krebs	Overland Park, Kansas	Vice President, Kansas City Life
Nancy Bixby Hudson	Lander, Wyoming	Director, Kansas City Life
Daryl D. Jensen	Olympia, Washington	Vice Chairman of the Board, Sunset Life
Tracy W. Knapp	Overland Park, Kansas	Senior Vice President, Kansas City Life
Mark A. Milton	Leawood, Kansas	Senior Vice President and Actuary, Kansas City Life
Richard D. Ropp	Kansas City, Missouri	Vice President, Kansas City Life

The Company's Bylaws authorize an Executive Committee and any other committees that may be needed. The established committees and the members elected and serving as of December 31, 2005, were as follows:

Executive Committee

R. Philip Bixby
Walter E. Bixby
Daryl D. Jensen
James F. Aldrich

Committee on Employee Benefits

R. Philip Bixby
Daryl D. Jensen
James F. Aldrich

Officers Compensation Committee

Walter E. Bixby
R. Philip Bixby
Daryl D. Jensen

Nominating Committee

Walter E. Bixby
Daryl D. Jensen
R. Philip Bixby

Wealth Building and Opportunity Planning Committee

David A. Laird
James R. Wilcox
John A. Showalter

The senior officers elected and serving as of December 31, 2005, were as follows:

R. Philip Bixby	President and Chairman of the Board
Daryl D. Jensen	Vice Chairman of the Board
David A. Laird	Vice President and Controller
Donald E. Krebs	Vice President - Marketing and Sales
David A. Laird	Vice President and Controller
Robert J. Milroy	Vice President – Insurance Services
Mark A. Milton	Vice President and Actuary
Richard D. Ropp	Vice President – Policy Administration
Mary M. McCalla	Treasurer
James F. Aldrich	Secretary

Conflict of Interest

The Company requires its directors and officers to annually complete a conflict of interest questionnaire. Completed questionnaires were reviewed for all directors and officers for the examination period. No material conflicts were noted.

Corporate Records

The Company's Articles of Incorporation and Bylaws were reviewed for the period under examination. Neither the Articles of Incorporation nor the Bylaws were amended during the examination period.

The minutes of the Board of Directors' meetings, committee meetings, and stockholders' meetings were reviewed for proper approval of corporate transactions. In general, the minutes appear to properly reflect and approve the Company's major transactions and events for the period under examination.

Acquisitions, Mergers and Major Corporate Events

None

Surplus Debentures

No surplus debentures were issued or outstanding for the period under examination.

AFFILIATED COMPANIES

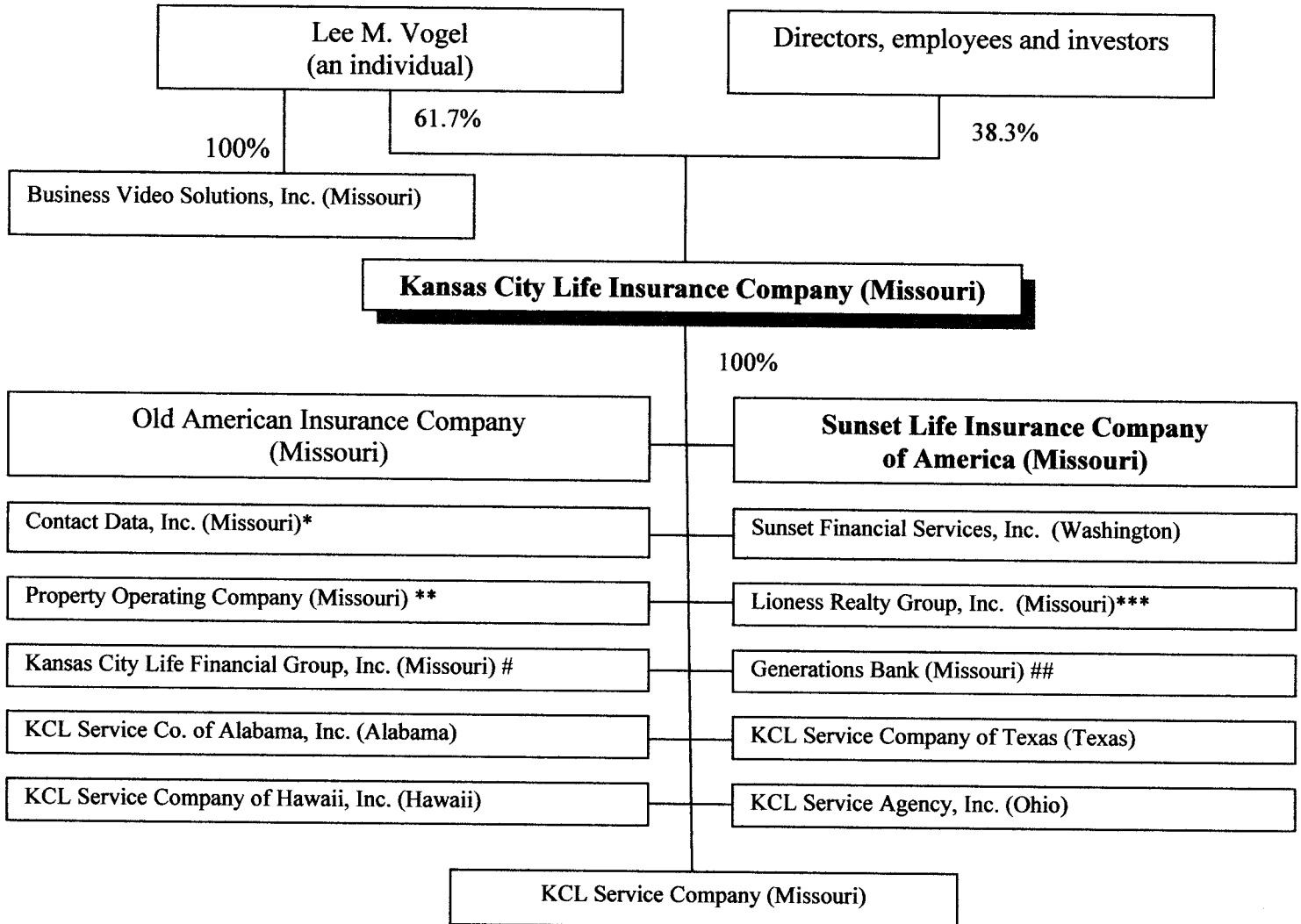
Holding Company, Subsidiaries and Affiliates

The Company is a member of an Insurance Holding Company System as defined by Section 382.010 RSMo (Definitions). An Insurance Holding Company System Registration Statement was filed by the parent, Kansas City Life, for each year of the examination period on behalf of itself and its subsidiaries, including Sunset Life. Sunset Life is a wholly owned subsidiary of Kansas City Life. Lee M. Vogel, an individual and a resident of the State of Missouri, is the ultimate controlling person within the holding company system of Kansas City Life. [See the Kansas City Life examination report for additional details regarding the ultimate controlling person].

The parent, Kansas City Life Insurance Company, is a life and health insurer organized as a Missouri corporation. The holding company system includes another life and health insurer, Old American, and eleven other affiliates that are related in part or entirely to the insurance operations. Sunset Financial Services, Inc. (SFS), a Missouri corporation, markets all of Kansas City Life and Sunset Life variable products and performs investment services for policyholders. Generations Bank, a federal stock savings bank chartered in Missouri, administers personal growth accounts (PGA) for Kansas City Life and its insurance subsidiaries' policyholders. Policyholder proceeds from claims and surrenders are deposited into a checking account with Generations Bank, the policyholder then becomes a customer of Generations Bank and can draw on the proceeds. Generations Bank also provides typical banking services to customers unrelated to the insurance operations. As of January 8, 2007, Generations Bank was sold to a third party. The other nine subsidiaries are currently inactive, terminated, or do not have any significant operations.

Organizational Chart

The following organizational chart depicts Sunset Life's ownership and holding company structure, as of December 31, 2005:



*Terminated its corporate charter with the State of Missouri effective December 19, 2003.

** Terminated its corporate charter with the State of Missouri effective December 29, 2003.

*** Terminated its corporate charter with the State of Missouri effective August 27, 2004.

Terminated its corporate charter with the State of Missouri effective July 1, 2004.

Sold effective January 8, 2007.

Intercompany Transactions

The Company's significant intercompany agreements are outlined below.

- 1. Type:** Tax Allocation Agreement

Affiliates: Kansas City Life and Old American

Effective: January 1, 1988

Terms: A consolidated federal income tax return is filed each year by Kansas City Life. The portion of the consolidated tax liability that is allocated to Old American and Sunset Life is based upon the subsidiary's liability on a stand-alone basis. Intercompany tax settlements are made approximately 30 days after the filing of the tax return.
- 2. Type:** Cost Sharing Agreement

Affiliate: Kansas City Life

Effective: August 7, 1992

Terms: Kansas City Life employees perform necessary services for Sunset Life. These services include data processing, personnel, investment, tax, management, and other administrative services. Salaries and benefits are allocated based upon a time study for the applicable employees. Any expenses that are specifically for Sunset Life are not subject to allocation and are charged 100% to Sunset Life. Allocated costs are to be reimbursed at least on a quarterly basis.
- 3. Type:** Loan Guarantee

Affiliate: Kansas City Life Insurance Company

Effective: August 4, 1999

Terms: Kansas City Life has guaranteed the indebtedness of Sunset Life on borrowings under a UMB Bank \$10,000,000 Line of Credit.
- 4. Type:** Inter-Company Retained Asset Program for Benefit Payments

Affiliate: Kansas City Life and Old American

Effective: January 1, 2006

Terms: Benefit payments for all parties will be paid through a Kansas City Life corporate account maintained with State Street Bank and BISYS (State Street). Through Kansas City Life's contract with State Street, retained asset checking accounts are established for beneficiaries of death claims, and cash surrenders in excess of \$10,000, for each of the parties to this agreement. Accounts are identified for each company based on branch codes built into a beneficiary's checking account number. When beneficiaries submit checks for payment they

are paid from the Kansas City Life corporate account. Kansas City Life will maintain sufficient cash balance in the corporate account for payment of all submitted checks made from all beneficiaries. Accounts receivable and payable balances will be established between Kansas City Life and its respective subsidiaries when checks are submitted with their branch codes. Sunset Life and Old American will settle the balances of the payables monthly. In addition, bank service fees will be paid by each party based on their proportional share of the fees. Fees identified by the respective branch code of the account as being incurred by one party will be paid by that party.

The Company had a reinsurance agreement with Kansas City Life effective September 1, 1993, for all of the life business up to \$2,450,000 of face value per policy on policies issued since 1976. Beginning in 1994, Kansas City Life no longer reinsured any of Sunset Life's term life products, however, universal life products are still being reinsured.

Kansas City Life has also issued guarantees for minimum amounts of capital and surplus for Sunset Life. These guarantees were necessary for Sunset Life's licensure in three states. A written guarantee was executed on June 18, 1998 for the State of Ohio. Guarantees for Connecticut and Iowa were made in the form of Board of Directors' resolutions that were documented in the April 26, 1999, minutes of Kansas City Life.

The amounts (paid) to and received from parent during the period under examination under the above agreements were as follows:

	<u>2005</u>	<u>2004</u>	<u>2003</u>
Cost Sharing Agreement – Sunset Life:			
Paid to Kansas City Life	(\$3,880,000)	(\$4,776,000)	(\$5,947,000)
Dividend Payments:			
Paid to Kansas City Life	(8,250,000)	(7,500,000)	(55,000,000)
Federal Income Tax Allocation Agreement:			
(Paid to)/Received from – Kansas City Life	(930,000)	(1,810,000)	(955,000)
Inter-Company Retained Asset Program for			
Benefit Payments:			
Paid to Kansas City Life	(2,233,297)	(2,516,503)	(2,920,789)
Net Amount (Paid) or Received	<u>(\$15,293,297)</u>	<u>(\$16,602,503)</u>	<u>(\$64,822,789)</u>

There were additional directly identifiable expenses paid by Kansas City Life on behalf of Sunset Life during the examination period that are not included in the schedule above and were outside of the terms and scope of the Cost Sharing Agreement. Sunset Life did not tabulate the total amount paid by and/or reimbursed to Kansas City Life under this arrangement.

FIDELITY BOND AND OTHER INSURANCE

The Company is a named insured along with Kansas City Life and other affiliates on a financial institution bond with a liability limit of \$5,000,000 and a \$100,000 deductible. This coverage complies with the suggested minimum amount of fidelity insurance according to NAIC guidelines. Sunset Life is also a named insured on additional insurance policies that include, but are not limited to, the following: commercial general liability, commercial property, workers compensation, commercial umbrella, directors and officers liability, and business automobile.

PENSION, STOCK OWNERSHIP AND INSURANCE PLANS

Sunset Life does not have any employees. All Company functions are performed by employees of the parent company, Kansas City Life. Sunset Life's percentage of employee benefit costs are allocated under a Cost Sharing Agreement, which has been approved by DIFP.

A variety of standard benefits are provided to Kansas City Life's employees. These benefits include, but are not limited to, health insurance, dental insurance, life insurance, disability insurance, a defined benefit pension plan, a 401(k) savings plan, a deferred compensation plan, and profit sharing plan. Post-retirement health insurance is provided to retirees that meet eligibility requirements.

The Company's agents located throughout the United States may qualify for limited benefits upon meeting certain pre-determined requirements. These benefits include group life and accidental death and dismemberment coverage, and a nonqualified deferred compensation plan.

Settlement of the Company's expenses related to the benefits provided by Kansas City Life under the Cost Sharing Agreement is made monthly, and no additional legal liability existed as of the end of the examination period. The Company appears to have properly accounted for its direct and allocated employee benefits costs in the financial statements.

STATUTORY DEPOSITS

Deposits with the State of Missouri

The funds on deposit with the Missouri Department of Insurance, Financial Institution and Professional Registration as of December 31, 2005, as reflected below, were sufficient to meet the capital deposit requirements for the State of Missouri in accordance with Section 376.290 RSMo (Deposit and transfer of securities). The Company's required deposit for Missouri was \$600,000. The funds on deposit as of December 31, 2005, were as follows:

<u>Type of Security</u>	<u>Par Value</u>	<u>Fair Value</u>	<u>Statement Value</u>
U.S. Treasury Notes	\$5,000,000	\$4,927,345	\$5,028,885

Deposits with Other States

The Company also has funds on deposit with other states in which it is licensed. Those funds on deposit as of December 31, 2005, were as follows:

<u>State</u>	<u>Type of Security</u>	<u>Par Value</u>	<u>Fair Value</u>	<u>Statement Value</u>
Georgia	FNMA	\$35,000	\$ 34,158	\$ 34,868
Massachusetts	U.S. Treasury Notes	100,000	102,238	100,888
New Mexico	U.S. Treasury Notes	150,000	144,850	149,268
North Carolina	U.S. Treasury Notes	<u>450,000</u>	<u>444,760</u>	<u>452,962</u>
Total		<u>\$735,000</u>	<u>\$726,006</u>	<u>\$737,986</u>

Other Deposits

The Company also had pledged assets to the Federal Home Loan Bank as collateral for future borrowings from the Federal Home Loan Bank. The Company did not have any borrowings from the Federal Home Loan Bank at the end of 2005. The pledged assets on deposit as of December 31, 2005 were as follows:

<u>Type of Securities</u>	<u>Par Value</u>	<u>Fair Value</u>	<u>Statement Value</u>
Bonds	\$12,769,958	\$12,902,713	\$12,957,022
Federal Home Loan Bank Stock	<u>839,223</u>	<u>839,223</u>	<u>839,223</u>
Total	<u>\$13,609,181</u>	<u>\$13,741,936</u>	<u>\$13,796,245</u>

It should be noted that the value of the Company's investment in Federal Home Loan Bank, consisting of 7,924 shares of common stock, which is also pledged as required by the loan documents, was not properly reported as an encumbered asset. The Company is aware of the required disclosures under the NAIC Annual Statement instructions with respect to assets held in trust, pledged and/or otherwise encumbered. Assets having these characteristics are not available for policyholders, claimants, and ordinary creditors of the Company. Accordingly, such assets must be reported on the Special Deposits schedule of the Annual Statement. The Company is directed to abide by this disclosure requirement.

INSURANCE PRODUCTS AND RELATED PRACTICES

Territory and Plan of Operation

Sunset Life is licensed by the Missouri Department of Insurance, Financial Institutions and Professional Registration under Chapter 376 RSMo (Life, Health and Accident Insurance). As of December 31, 2005, the Company was licensed to transact the business of insurance in 43 states and the District of Columbia. As of December 31, 2005, the Company had no pending licenses and was **not** licensed in the states of Alabama, New Hampshire, New Jersey, New York, Tennessee, Vermont and Wisconsin.

Sunset Life's product line includes whole life, term life, universal life, and annuities. Individual life products accounted for 81% of total direct written premiums in 2005 with individual annuities accounting for most of the remaining premiums.

As of December 31, 2005, Sunset Life had only 5 active agents, as its parent, Kansas City Life was in the beginning stages of combining Sunset Life's marketing activities and operations into Kansas City Life's. During 2005 Kansas City Life determined that the nature of the products and services, the types and customers and distribution methods of Sunset Life are essentially the same as Kansas City Life's. Based on the above restructuring, as of year-end 2005, Sunset Life's business was combined into Kansas City Life's Individual Insurance business segment. Effective January 1, 2006, Sunset Life's sales force was integrated into the Kansas City Life's sales force by appointing Sunset Life's agents as agents of Kansas City Life.

Policy Forms & Underwriting

Advertising & Sales Materials

Treatment of Policyholders

The DIFP has a market conduct staff that performs a review of these issues and generates a separate market conduct report. Sunset Life's most recent market conduct examination report by the DIFP was dated October 3, 2002 and was issued on February 14, 2005. This report did not include any material findings that could have a significant effect on the Company's financial position.

REINSURANCE

General

The Company's premium and annuity activity on a direct written, assumed and ceded basis, for the period under examination, is detailed below:

	<u>2005</u>	<u>2004</u>	<u>2003</u>
Direct Business	\$36,530,876	\$33,205,671	\$36,057,120
Reinsurance Assumed	0	0	0
Reinsurance Ceded:			
Affiliates	(576,587)	(604,366)	(645,591)
Non-affiliates	(13,742,622)	(13,746,802)	(13,416,645)
Net Premiums Written	<u>\$22,211,667</u>	<u>\$18,854,503</u>	<u>\$21,994,884</u>

Assumed

The Company does not assume any business.

Ceded

The Company is contingently liable for all reinsurance losses ceded to others. This contingent liability would become an actual liability in the event that an assuming reinsurer fails to perform its obligations under the reinsurance agreement.

The exhibit below is a summary of the Company's significant reinsurers, as of December 31, 2005. A description of each reinsurance agreement follows this exhibit.

<u>Reinsurer</u>	<u>Ceded Life Reserves (000's)</u>	<u>Percent of Total Ceded Life Reserves</u>
Hannover Life Reassurance of America	\$1,588,360	4.91%
Lincoln National Life Ins Company	1,940,971	6.00%
Protective Life Insurance Company	3,184,951	9.84%
RGA Reinsurance Company	4,767,381	14.73%
Security Life of Denver	1,880,527	5.81%
Transamerica Occidental Life Insurance Company	6,350,457	19.62%
Swiss Re Life & Health America Inc.	1,588,361	4.91%

The Company has a yearly renewable term reinsurance agreement, effective January 1, 2002, with Hannover Life Reassurance Company of America (Hannover). In accordance with the agreement terms, Hannover will automatically reinsure a 20% first dollar quota share of all previously retained mortality risk on the in-force block of business as of January 1, 2002. Sunset Life's retention is 20% for each risk, up to a maximum retention of \$350,000 per policy. There is an additional automatic binding coverage at 16% of \$400,000 (the net amount at risk) to the reinsurer.

The Company has an automatic and facultative reinsurance agreement with Lincoln National Life Insurance Company, (Lincoln National) effective October 1, 1999, to cede 10, 20, and 30 year select and ultimate renewable and convertible term insurance. Sunset Life's retention was set at 20% for each risk, up to a maximum retention of \$350,000 per policy. The agreement was amended effective January 1, 2000 to stop writing previous plans and add 10 and 20 year

renewable and convertible term and spouse and term riders. Sunset Life's retention was reduced to 10% for each risk, up to a maximum retention of \$350,000 per policy. Lincoln National reinsures 27.7% of the risks on 10 year renewable plans and 44.44% on 20 year renewable plans. The maximum issue amount subject to reinsurance is \$4,550,000 per policy for all plans. The agreement was terminated effective May 1, 2002, for new business.

Effective September 1, 1995, the Company entered into an automatic coinsurance agreement with Protective Life Insurance Company (Protective Life) which covers a second-to-die Universal Life product, including associated benefits/riders identified in the agreement. Protective Life will assume 100% of the liabilities for risks ceded with Sunset Life having no retention. There is no stated limit of reinsurance coverage in the agreement. There is a separate Administrative Services Agreement that states Protective Life will establish policy forms and premium rates, perform underwriting, pay claims and provide policyholder services. Sunset Life is responsible for the sales and marketing of the product.

The Company has a yearly renewable term reinsurance agreement, effective January 1, 2002, with RGA Reinsurance Company (RGA). RGA will automatically reinsure a 30% first dollar quota share of all mortality risk on the in-force block of business as of January 1, 2002. Sunset Life's retention is 20% for each risk, up to a maximum retention of \$350,000 per policy. The agreement was amended effective May 1, 2003 to increase RGA's quota share percentage to 60%.

Effective January 1, 1998, the Company entered into an automatic and facultative coinsurance agreement with Security Life of Denver Insurance Company (Security Life), to reinsurer 10 and 20 year level premium term policies. Security Life shall reinsure 50% of each risk, on a first dollar quota share basis, with a maximum issue amount subject to reinsurance being \$4,550,000 per policy. Sunset Life's retention is 20% for each risk, up to a maximum retention of \$350,000 per policy. The agreement was terminated effective December 31, 1999 for new business, while existing policies will continue to be reinsured to expiration.

The Company entered into an Automatic and Facultative Coinsurance agreement with Transamerica Occidental Life Insurance Company (Transamerica Occidental), effective January 1, 1994, to cede a yearly, term life product and a ten year, level premium term product. Sunset Life's retention is 20% for each risk, up to a maximum retention of \$350,000 per policy. The maximum issue amount subject to reinsurance is \$4,550,000 per policy. Transamerica Occidental reinsures 80% of the risk. The agreement was amended effective January 1, 1998 to add a twenty-year, level premium term product. Transamerica Occidental reinsures 40% of the risks for the twenty-year term policies, subject to the same retention and reinsurance limits. The agreement was terminated effective December 31, 1999 for new business, while existing policies will continue to be reinsured to expiration.

The Company has a yearly renewable term reinsurance agreement, effective January 1, 2002, with Swiss Re Life & Health America, Inc. (Swiss RE) Swiss RE will automatically reinsure a 20% first dollar quota share of all retained mortality risk on the in-force block of business as of January 1, 2002. Sunset Life's retention is 20% for each risk, up to a maximum retention of \$350,000 per policy.

Effective January 1, 2000, the Company entered into an Automatic and Facultative Coinsurance agreement with Transamerica International RE (Bermuda) Ltd. (Transamerica International), to cede 20 year, level premium term product. Sunset Life's retention is 10% for each risk, up to a maximum retention of \$350,000 per policy. The maximum issue amount subject to reinsurance is \$4,550,000 per policy. Transamerica International reinsures 35% of the risks for this plan. The agreement was terminated effective June 1, 2002 for new business, while existing policies will continue to be reinsured to expiration. Effective March 31, 2005, a novation agreement was signed by Sunset Life and Transamerica International transferring all obligations, duties and liabilities to Transamerica Occidental Life Insurance Company. The letter of credit securing various obligations was cancelled at the time of transfer.

Effective January 1, 2006, Sunset Life ceased writing new business and renewals for existing policies and contracts are being redirected to Kansas City Life. See the Insurance Products and Related Practices section of this report for additional details.

ACCOUNTS AND RECORDS

General

The Company's financial statements were audited by the CPA firm, KPMG, LLP, of Kansas City, Missouri, for all years in the examination period.

Policy and claim reserves were reviewed and certified by Stephen A. Bader, FSA, MAAA, for all years in the examination period. Mr. Bader is an employee of Kansas City Life.

FINANCIAL STATEMENTS

The following financial statements, with supporting exhibits, present the financial condition of Sunset Life for the period ending December 31, 2005. Any examination adjustments to the amounts reported in the financial statements and/or comments regarding such are made in the "Notes to the Financial Statements." The failure of any column of numbers to add to its respective total is due to rounding or truncation.

There may have been additional differences found in the course of this examination, which are not shown in the "Notes to the Financial Statements." These differences were determined to be immaterial concerning their effect on the financial statements, and therefore were only communicated to the Company and noted in the workpapers for each individual Annual Statement item.

Assets

	<u>Ledger Assets</u>	<u>Assets Not Admitted</u>	<u>Net Admitted Assets</u>
Bonds	\$404,006,598		\$404,006,598
Preferred Stocks	496,135		496,135
Common Stocks	839,223		839,223
Mortgage Loans on Real Estate	40,441,723		40,441,723
Contract Loans	12,622,976	\$1,152	12,621,824
Cash and Short-term Investments	3,876,712		3,876,712
Other Invested Assets	5,450,204	2,198,971	3,251,233
Investment Income Due or Accrued	6,063,433	2,149	6,061,284
Uncollected Premiums and Agents' Balances in Course of Collection	362,652	205,213	157,439
Deferred Premiums, Agents' Balances and Installments Booked but Deferred and not yet Due	4,053,879		4,053,879
Amounts Recoverable from Reinsurers	1,116,902	16,000	1,100,902
Others Amounts Receivable Under Reinsurance	52,746		52,746
Current Federal Income Tax Recoverable	593,350		593,350
Net Deferred Tax Assets	14,380,779	12,651,446	1,729,333
Guaranty Funds Receivable or on Deposit	30,650		30,650
Aggregate Write-Ins:			
Other Assets Nonadmitted	358,326	349,358	8,968
TOTAL ASSETS	<u>\$494,746,288</u>	<u>\$15,424,289</u>	<u>\$479,321,999</u>

Liabilities, Surplus and Other Funds

Aggregate Reserve for Life Contracts	\$417,835,016
Aggregate Reserve for Accident and Health Contracts	90,178
Liability for Deposit-type Contracts	7,921,245
Contract Claims – Life	1,042,781
Contract Claims – Accident and Health	18,547
Policyholders' Dividend and Coupon Payable	416
Policyholders' Dividends Apportioned for Payment	105,000
Premiums and Annuity Considerations Received in Advance	49,884
Other Amounts Payable on Reinsurance	1,413,031
Interest Maintenance Reserve	2,988,054
Commissions to Agents Due or Accrued	103,000
General Expenses Due or Accrued	508,500
Taxes, Licenses and Fees Due or Accrued	280,432
Unearned Investment Income	118,914
Amounts Withheld or Retained	2,321,238
Amounts Held for Agents' Account	47,303
Remittances and Items Not Allocated Note 1	216,665
Liability for Benefits for Employees and Agents	1,967,130
Asset Valuation Reserve	4,125,000
Payable to Parent, Subsidiaries and Affiliates	10,094
Aggregate Write-Ins for Liabilities:	
Uncashed Checks Pending Escheatment	67,197
Miscellaneous Liabilities and Retirement Savings Fund	<u>82,042</u>
TOTAL LIABILITIES	\$441,311,667
Common Capital Stock	5,320,000
Gross Paid In and Contributed Surplus	12,717,600
Unassigned Funds (Surplus)	19,972,732
Capital and Surplus	<u>\$38,010,332</u>
TOTAL LIABILITIES AND SURPLUS	<u>\$479,321,999</u>

Summary of Operations

Premiums and Annuity Considerations	\$22,211,668
Considerations for Supplementary Contracts with Life Contingencies	46,145
Net Investment Income	27,151,313
Amortization of Interest Maintenance Reserve	191,691
Commission and Expense Allowances on Reinsurance Ceded	583,890
Miscellaneous Income	<u>7,936</u>
TOTAL	\$50,192,643
Death Benefits	3,757,122
Matured Endowments	103,212
Annuity Benefits	16,861,711
Disability Benefits and Benefits Under Accident & Health Contract	131,014
Coupons, Guaranteed Endowments and Similar Benefits	5,473
Surrender Benefits and Withdrawals for Life Contracts	17,678,214
Interest and Adjustments on Contract and Deposit-type Contract Funds	423,105
Payments on Supplementary Contracts with Life Contingencies	656,481
Increase in Aggregate Reserves for Life and Accident & Health Contracts	(7,398,153)
Commissions on Premiums and Annuity Considerations	1,789,716
General Insurance Expenses	3,960,565
Insurance Taxes, Licenses and Fees	582,955
Increase in Loading on Deferred and Uncollected Premiums	20,915
Aggregate Write-Ins for Deductions:	
Interest on Deferred Compensation	<u>119,643</u>
TOTAL	<u>\$38,691,973</u>
NET GAIN FROM OPERATIONS	\$11,500,670
Dividends to Policyholders	83,573
Federal Income Taxes Incurred	1,862,159
Net Realized Capital Gains and Losses	<u>1,687,093</u>
NET INCOME	<u>\$11,242,031</u>

Capital and Surplus Account

Capital and Surplus, December 31, 2004	\$35,842,857
Net Income	11,242,031
Change in Net Unrealized Capital Gains or (Losses)	65,950
Change in Non-Admitted Assets	(1,698,373)
Change in Reserve on Account of Change in Valuation Basis	11,094
Change in Liability for Reinsurance in Unauthorized Companies	193,483
Change in Asset Valuation Reserve	50,000
Change in Net Deferred Income Tax	553,290
Dividends to Stockholders	<u>(8,250,000)</u>
 Net Change in Capital and Surplus	 <u>\$2,167,475</u>

CAPITAL AND SURPLUS, DECEMBER 31, 2005	<u>\$38,010,332</u>
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NOTES TO THE FINANCIAL STATEMENTS

Note 1 – Remittances and Items Not Allocated	\$216,665
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As noted in **two** prior examinations, the Company continues to have reporting problems regarding transactions in this account. The problems can be summarized as follows: 1) most of the general ledger accounts included in the Annual Statement balance included both debits and credits, which were netted and included as a single amount for Annual Statement purposes. Per SSAP #64 (Offsetting and Netting of Assets and Liabilities) only debits and credits for the same party may be offset - the Company cannot offset a liability to one policyholder with an asset due from a different policyholder. Any debit balances should be shown on the Asset page of the Annual Statement (on the appropriate line) and a determination of admissibility made based on SSAP #4 (Assets and Nonadmitted Assets), and 2) several of the general ledger accounts with credit balances did not meet the criteria for reporting on this line of the Annual Statement. Per the NAIC Annual Statement instructions and SSAP #67, paragraph 9 (Other Liabilities), Remittances and Items Not Allocated line should include "cash receipts that cannot be identified for a specific purpose or, for other reasons, cannot be applied to a specific account when received". The Company included claims payment liabilities, reinsurance liabilities, garnishments, etc., which clearly do not meet the above definition. Simply stated, as a matter of accounting policy, the Company is improperly reporting a variety of transactions in this line of the Annual Statement that should be separated and reported in different lines pursuant to the requirements of the NAIC Annual Statement instructions and the applicable SSAPs. Henceforth, the Company should ensure that, per SSAP #64, unrelated debits and credits within the same general ledger account or between two or more general ledger accounts are not netted,

but included as distinct assets/liabilities on the Annual Statement. In addition, the Company should ensure it follows reporting guidance provided by the NAIC's SSAP #67 and Annual Statement instructions guidance in completing the Annual Statement. Transactions not meeting these applicable instructions and standards should be included in the appropriate line of the Annual Statements other than Remittances and Items Not Allocated.

EXAMINATION CHANGES

--None--

GENERAL COMMENTS AND /OR RECOMMENDATIONS

Other Deposits (page 13)

The Company should ensure that all of its assets placed in a trust and/or otherwise encumbered, including the value of its investment in the common stock of Federal Home Loan Bank, which is also pledged to the Federal Home Loan Bank pursuant to the loan agreement, are properly disclosed on Schedule E - Part 3 (Special Deposits) schedule of the Annual Statement.

Remittances and Items Not Allocated (page 21)

As have been documented in **two** consecutive examination reports, the Company's accounting and reporting for this line of the Annual Statement is inconsistent with prescribed standards and procedures. The Company should implement the following action steps to become compliant with the applicable rules and standards:

- As a matter of accounting policy, desist from netting unrelated debits and credits within the same general ledger accounts pursuant to the requirements of SSAP #64.
- Review the language and the underlying guidance provided by SSAP #67, paragraph 9 and the NAIC's Annual Statement instructions related to this line of the Annual Statement and design a record keeping policy on how to record and report on related transactions, which must rely solely on these authoritative pronouncements without regard to any other guidance that may appear plausible but, is however, fundamentally flawed on its face as such guidance is more than likely to be inconsistent with the authoritative pronouncements, comprising SSAP #64, #67 and the NAIC's Annual Statement instructions for this line item.

- Ensure that transactions or events not having the characteristics contemplated by the authoritative pronouncements are separated out, recorded and reported in other lines of the Annual Statement other than Remittances and Items Not Allocated.

SUBSEQUENT EVENTS

The management of Sunset Life's agency force has been combined with that of Kansas City Life's, to minimize home office marketing expenses. This combination was deemed necessary following a determination that the nature of the products and services, the types and customers and distribution methods of Sunset Life are essentially the same as Kansas City Life's. Consequently, effective January 1, 2006, Sunset Life's sales force was integrated into the Kansas City Life's sales force by appointing Sunset Life's agents as agents of Kansas City Life.

Based on the above restructuring, Kansas City Life's reportable business segments has been redefined, with Sunset Life being identified as a separate operating segment of Kansas City Life. Other than for statutory financial statements reporting, the business operations of Sunset Life will be combined with the Individual Insurance business segment of Kansas City Life. Sunset Life will continue as a life insurance company with its current block of business.

ACKNOWLEDGMENT

The assistance and cooperation extended by the officers and the employees of Sunset Life Insurance Company of America during the course of this examination is hereby acknowledged and appreciated. In addition to the undersigned, Alvin Garon, CFE, Karen Baldree, CFE, Leslie Nehring, CFE and Steven Koonse, CFE, examiners for the Missouri Department of Insurance, Financial Institutions and Professional Registration also participated in this examination. Angela Campbell CFE, Computer Audit Specialist for the Missouri Department of Insurance, Financial Institutions and Professional Registration performed a review of the information system environment. Leon Langlitz, FSA, MAAA of Lewis & Ellis, Inc., also participated as a consulting actuary.

VERIFICATION

State of Missouri)
)
 County of)

I, Levi N. Nwasoria, CPA, CFE on my oath swear that to the best of my knowledge and belief the above examination report is true and accurate and is comprised of only facts appearing upon the books, records or other documents of the Company, its agents or other persons examined or as ascertained from the testimony of its officers or agents or other persons examined concerning its affairs and such conclusions and recommendations as the examiners find reasonably warranted from the facts.

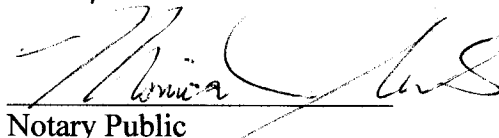


Levi N. Nwasoria, CPA, CFE
 Examiner-In-Charge
 Missouri Department of Insurance, Financial
 Institutions and Professional Registration

Sworn to and subscribed before me this 13th day of April, 2007.

My commission expires:

3/10/2009


 Notary Public

MONICA J. CURLS
 Notary Public - Notary Seal
 STATE OF MISSOURI
 County of Jackson
 My Commission Expires 3/10/2009
 Commission # 05679768

SUPERVISION

The examination process has been monitored and supervised by the undersigned. The examination report and supporting workpapers have been reviewed and approved. Compliance with NAIC procedures and guidelines as contained in the Financial Condition Examiners Handbook has been confirmed.

A handwritten signature in black ink, appearing to read "Frederick G. Heese", written over a horizontal line.

Frederick G. Heese, CFE, CPA

Audit Manager

Missouri Department of Insurance, Financial
Institutions and Professional Registration